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EVALUATING THE LONG-TERM FINANCIAL STABILITY OF SELECTED TEA COMPANIES IN INDIA

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ABSTRACT

Tea was heavily advertised to all sections of Indian society. Tea is an agro-based commodity and is subjected to varieties of nature. Despite adverse agro climatic condition experienced in tea growing areas in many years, Indian tea plantation industry is able to maintain substantial growth in relation to volume of Indian tea production during the last one decade. Indian tea exports have been competing strongly in the international markets and has been able to create a niche for itself. The study is taken to study the long-term financial stability of three selected tea companies-Harrisons Malayalam Ltd., Dhunseri Tea Ltd., and Neelamalai Agro Ltd. covering their Debt Equity Ratio, Interest Coverage Ratio and debt to asset ratio for the period from 2013-14 to 2022-23 using ratio analysis. The study concludes that there is difference in the financial strategies and stability of these companies.

KEYWORDS: Financial Stability, Tea, Debt-Equity Ratio, Interest Coverage Ratio

1. INTRODUCTION

Tea was heavily advertised to all sections of Indian society. It was necessary to start your day with a cup of tea. Breakfast was said to be incomplete without a cup of hot chai. And to make the tea even more energizing and enticing even more milk and sugar were added. When tea finally reached common people's home, they added their own ingredients to keep up with their own preferences. Ginger, cardamom, and other spices were added according to their taste and medicinal values. And from a few shops and stalls in the 1920s, tea vendors started booming in the 1930s in every major city and they reached all of India. But chai did have some problems in south India, where the urban middle class was obsessed with coffee. It did finally break through and started being served in hotels and coffee clubs.

Tea is an agro-based commodity and is subjected to varieties of nature. Despite adverse agro climatic condition experienced in tea growing areas in many years, Indian tea plantation industry is able to maintain substantial growth in relation to volume of Indian tea production during the last one decade. Tea is an essential item of domestic consumption and is the major beverage in India. Tea is also considered as the cheapest beverage amongst the beverages available in India. Tea industry provides gainful direct employment to more than a million workers mainly drawn from the backward and socially weaker section of the society. It is also a substantial foreign exchange earner and provides sizeable amount of revenue to the State and Central Exchequer.

World tea per capita consumption increased by 2.5 percent over the last decade, with marked expansions in tea producing countries. Growth in demand has driven by developing and emerging economies like East Asia, Africa, Latin America, Caribbean and the Near East leading the expansion. Indian tea production amounts annually to over USD 17 billion at global level whilst world tea trade is valued at about USD 9.5 billion accounting for an important source of generation of export earnings.

India is the second largest tea producer and largest black tea producer with production at around 1350 million kgs (M. Kgs) and self-sufficient to meet out the domestic requirements and export obligations. India is also the largest consumer of black tea and consumes around 18% of the total World tea consumption. Indian tea is exported to various destinations and is become the fourth largest tea exporter besides catering to a large number of domestic consumers. In 2022-23, India's tea production stood at 1,374.97 million kgs compared to 1,344.40 million kgs in 2021-22. India's total tea exports during 2022-23 in quantity were 228.40 million kgs and worth US$ 793.78 million. The northern region, specifically the states of Assam and West Bengal contributed to the majority of tea production during that year. In 2022-23, the unit price of tea was US$ 3.48 per kg. From April 2023-January 2024, quantity of India's total tea exports stood at 199.84 million kgs.

The Indian tea industry is employing 1.16 million workers directly and an equal number of people are associated with it indirectly in FY 2022-23. Small tea growers are the emerging Sector contributing nearly 52% of the total produce. There are nearly 2.30 lakh of Small tea growers, 352 Self Help Group (SHG), 440 Farmer Producer Organisation (FPO) and 17 Farmer Producer Companies (FPCs) existing in the supply chain. Indian tea exports have been competing strongly in the international markets and has been able to create a niche for itself. During 2022-23, Indian tea exports are expected to achieve more than 95% of the set targets of $883 million despite various geo-political, geo-economic and logistical challenges.
The Tea market in India is projected to generate revenue of US$14.4bn in 2024. It is anticipated to experience an annual

growth rate of 5.99% (CAGR 2024-2028). When considering the population, the per person revenue in India's Tea market is estimated to be US$10.03 in 2024.

2. LITERATURE REVIEW

The following framework of literature review was studied to justify the objective of the study:

Kumar, Badal, Singh & Singh (2008) explored the problems and prospects of tea industry in India for the period of 24 years from 1980 to 2004 using OLS method. The study revealed that over last decade and a half, the country has not shown any significant growth in yield. Also immense variability has seen in prices over the decade. The other problems were to be combated with the proper strategies to overcome the struggles in the industry.

Barrientos, Gereffi, & Rossi (2011) analysed an economic and social upgrading in global production networks which was contribution to a new paradigm for a changing world. The study developed a framework for analysing the linkages between economic upgrading of firms and social upgrading of workers due to various factors affecting it.

K.K. Singh, Kumar, Singh & Singh (2013) studied the direction of tea export and its destination and performance for the period from 1995 to 2004 using biannual averages, export performance ratio and net protection coefficient. The study showed that the productivity of tea from India was less as compared to other leading countries. Many factors such as declining global prices and issues with small tea growers have affected the productivity of tea in India.

Sharma & Yadav (2018) analysed the impact of agricultural credit schemes on irrigated area in India for a period of 5 years from 2012-13 to 2016-17 using Correlation, T test and F test. The study found that there was huge positive impact of credit schemes on irrigated area. The study also suggests that small farmers with small holdings must be made aware about the schemes so that it increases the scope of the credit and also the production.

Roy & Mandal (2020) compared the financial performance of two tea companies namely Dhensuri Petrochem & Tea Ltd. and Lykis Ltd. for the period from 2007 to 2018 using t-test and descriptive statistics. The study revealed that liquidity management in Dhensuri Petrochem & tea Ltd. was better than Lykis Ltd. while profitability management was better in the latter one whereas the financial stability was not identical in both the tea companies at 5% level.

Czerwonka & Jaworski (2021) examined the capital structure determinants of small and medium-sized enterprises from central and eastern Europe for the period of 3 years from 2014 to 2017 using panel models. The study revealed that the SMSEs from CEE have capital structure mainly shaped by firm-specific factors, whereas the industry specific and country specific constitutes to only about 4%.

Jin (2023) studied the financial analysis and development research of Mixue ice cream & tea for the period of 3 years from 2019 to 2021 using ratio analysis to know the profitability, operating capacity, liability ability and development ability. The study revealed that the difference in the business model will lead to huge differences in the whole revenue. It also suggested that Mixue should start to build cold chains to improve product quality and develop cold chain products.

Langat (2023) analysed the effect of capital structure on return on assets of Kenya tea development agency tea manufacturing factories in Kericho and Bomet Counties in Kenya of 9 tea factories for the period of 2008 to 2013 using panel fixed effect regression model. The study showed that there was positive association between ROA and long term debt and total debt while it was negative for short term debt.

3. OBJECTIVES OF THE STUDY

The objectives of the study are listed as follows:

1. To analyze the differences in the Debt to Equity Ratio among Harrisons Malayalam Ltd., Dhunseri Tea Ltd., and Neelamalai Agro Ltd.
2. To evaluate the variations in the Interest Coverage Ratio among the selected companies over a ten-year period.
3. To examine the differences in the Debt to Total Assets Ratio across the three

4. HYPOTHESES OF THE STUDY

The study is taken out with the following hypothesis.

Objective 1: Debt to Equity Ratio

- **H_0:** There is no significant difference in the Debt to Equity Ratio among Harrisons Malayalam Ltd., Dhunseri Tea Ltd., and Neelamalai Agro Ltd..
- **H_1:** There is a significant difference in the Debt to Equity Ratio among the selected companies.

Objective 2: Interest Coverage Ratio

- **H_0:** There is no significant difference in the Interest Coverage Ratio among Harrisons Malayalam Ltd., Dhunseri Tea Ltd., and Neelamalai Agro Ltd..
- **H_1:** There is a significant difference in the Interest Coverage Ratio among the selected companies.

Objective 3: Debt to Total Assets Ratio

- **H_0:** There is no significant difference in the Debt to Total Assets Ratio among Harrisons Malayalam Ltd., Dhunseri Tea Ltd., and Neelamalai Agro Ltd..
- **H_1:** There is a significant difference in the Debt to Total Assets Ratio among the selected companies.

5. RESEARCH METHODOLOGY

The following research methodology was taken for the study:

1. **Scope of the Study**
   This study delves into the financial solvency of three selected tea companies in India— Harrisons Malayalam Ltd., Dhunseri Tea Ltd., and Neelamalai Agro Ltd.—over a span of ten years (2013-14 to 2022-23). By focusing on solvency ratios such as Debt to Equity Ratio, Interest Coverage Ratio, and Debt to Total Assets Ratio, the

research aims to evaluate and compare the companies' long-term financial sustainability and debt management practices within the tea industry.

2. **Type of Research**
The research employs a q**uantitative and comparative approach** i.e. descriptive research design to evaluate the solvency of the selected companies. By utilizing statistical analysis tools like ANOVA, the study seeks to identify differences and draw conclusions about the financial stability of the firms.

3. **Types of Data**
This study is based entirely on **secondary data**, sourced from the financial reports and publicly available records of the selected companies. The data pertains to solvency ratios over a ten-year timeframe (2013-14 to 2022-23), offering insights into the financial dynamics of the companies.

4. **Sampling**
   - **Sampling Method:** This study utilized a targeted approach by selecting companies that are prominent in the Indian tea industry and have consistently published detailed financial data.
   - **Sampling Units:** The chosen sample includes three companies: Harrisons Malayalam Ltd., Dhunseri Tea Ltd., and Neelamalai Agro Ltd., ensuring diverse representation of financial strategies within the tea sector.

5. **Tools & Technique**
This study has used ratio analysis and ANOVA has been used for the comparison of the results.

The following ratios have been used for the study:

1) Debt to Equity Ratio = $\frac{\text{Total Debt}}{\text{Shareholders' Equity}}$

2) Interest Coverage Ratio = $\frac{\text{Earnings Before Interest and Taxes (EBIT)}}{\text{Interest Expense}}$

3) Debt to Total Assets Ratio = $\frac{\text{Total Debt}}{\text{Total Assets}}$

6. DATA ANALYSIS AND INTERPRETATION

The data is analyzed and interpreted with the data given:

1. **Debt to Equity Ratio**
Table 1 represents debt to equity ratio of the selected companies. The ANOVA results (Table 2) for the Debt to Equity Ratio indicate a statistically significant difference among the three companies, with a p-value of 0.000 (less than 0.05). The mean Debt to Equity Ratio for Harrisons Malayalam Ltd. (5.3) is significantly higher compared to Dhunseri Tea Ltd. (0.19) and Neelamalai Agro Ltd. (0.25) (Table 1). This suggests that Harrisons relies heavily on debt financing, whereas Dhunseri and Neelamalai have comparatively low debt obligations. The results highlight distinct financial strategies adopted by the companies, with Harrisons showing a higher risk of financial instability due to its reliance on external borrowings.

Table 1: Debt to Equity Ratio of Selected Tea Companies in India (Proportion)

Year	Harrisons Malayalam Ltd.	Dhunseri Tea Ltd.	Neelamalai Agro Ltd.
2013-14	5.70	0.17	0.46
2014-15	5.31	0.16	0.73
2015-16	5.10	0.16	0.01
2016-17	4.59	0.11	0.03
2017-18	4.76	0.21	0.15
2018-19	5.87	0.21	0.13
2019-20	5.89	0.21	0.19
2020-21	5.26	0.18	0.24
2021-22	5.07	0.20	0.25
2022-23	5.44	0.27	0.27
SD	**0.44**	**0.04**	**0.21**
Variance	**0.19**	**0**	**0.04**
Mean	**5.3**	**0.19**	**0.25**

Source: Websites of the selected banks

Table-2: ANOVA results with respect to Debt Equity Ratio

Source	F-Statistic	p-Value	Significance
Debt to Equity Ratio	315.67	0.000	Significant

2. **Interest Coverage Ratio**
Table 3 shows interest coverage ratio of the selected companies. The ANOVA results (Table 4) for the Interest Coverage Ratio show a statistically significant difference among the companies, with a p-value of 0.005 (less than 0.05). Neelamalai Agro Ltd. has an exceptionally high average Interest Coverage Ratio (314.4), indicating strong capability to meet its interest obligations. In contrast, Harrisons Malayalam Ltd. (1.07) shows a weak ability to cover interest expenses, reflecting financial vulnerability. Dhunseri Tea Ltd. (3.52) (Table 3) lies in the mid-range, suggesting moderate stability. These results highlight significant variability in how the companies manage their debt servicing capabilities.

Table 3: Interest Coverage Ratio of Selected Tea Companies in India (Times)

Year	Harriso ns Malayalam Ltd.	Dhunseri Tea Ltd.	Neelamalai Agro Ltd.
2013-14	1.32	6.77	203.30
2014-15	-1.48	4.94	95.31
2015-16	-2.18	4.67	25.59
2016-17	1.32	5.62	-18.67
2017-18	1.38	4.13	361.22
2018-19	-0.72	6.71	364.92
2019-20	1.58	9.97	864.75
2020-21	3.97	5.33	356.66

2021-22	3.07	-10.65	122.18
2022-23	2.45	-2.24	768.77
SD	**1.97**	**5.85**	**299.54**
Variance	**3.90**	**34.20**	**89722.75**
Mean	**1.07**	**3.52**	**314.40**

Source: Websites of the selected banks

Table-4: ANOVA results with respect to Interest Coverage Ratio

Source	F-Statistic	p-Value	Significance
Debt to Equity Ratio	315.67	0.000	Significant

3. **Debt to Total Assets Ratio**
   Table 5 shows the debt to total assets of the selected companies. The ANOVA results (Table 6) for the Debt to Total Assets Ratio reveal a statistically significant difference among the three companies, with a p-value of 0.000 (less than 0.05). Harrisons Malayalam Ltd. has the highest average Debt to Total Assets Ratio (22.85%), indicating heavy reliance on debt financing relative to assets. Dhunseri Tea Ltd. has a lower ratio (13.87%), reflecting more conservative debt usage. Neelamalai Agro Ltd. (22.19%) (Table 5) shows a balance similar to Harrisons but with less variability. These differences underline the varying levels of financial leverage and associated risk among the companies.

Table 5: Debt to Total Assets Ratio of Selected Tea Companies in India (%)

Year	Harrisons Malayala m Ltd.	Dhunser i Tea Ltd.	Neelamala i Agro Ltd.
2013-14	19.42	14.18	36.75
2014-15	19.09	13.18	61.45
2015-16	18.79	12.42	1.39
2016-17	23.48	7.38	3.27
2017-18	23.07	15.89	14.78
2018-19	29.05	15.52	12.56
2019-20	26.97	15.06	18.59
2020-21	23.85	14.02	22.85
2021-22	22.28	14.21	23.92
2022-23	22.53	16.84	26.38
SD	**0.04**	**0.03**	**0.18**
Variance	**0.00**	**0.00**	**0.03**
Mean	**22.85**	**13.87**	**22.19**

Source: Websites of the selected banks

Table 6: ANOVA results with respect to Debt to Total Assets Ratio

Source	F-Statistic	p-Value	Significance
Debt to Total Assets Ratio	188.45	0.000	Significant

7. FINDINGS OF THE STUDY

1. **Debt to Equity Ratio:** There is a significant difference in the Debt to Equity Ratio among the three companies. Harrisons Malayalam Ltd. has the highest ratio, indicating heavy reliance on debt, while Dhunseri Tea Ltd. and NeelamalaiAgro Ltd. have comparatively lower ratios, suggesting stronger equity positions.
2. **Interest Coverage Ratio:** Significant differences exist in the Interest Coverage Ratio across the companies. NeelamalaiAgro Ltd. demonstrates exceptional capability to meet its interest obligations, while Harrisons Malayalam Ltd. shows weak performance, reflecting potential financial stress.
3. **Debt to Total Assets Ratio:** The Debt to Total Assets Ratio also shows significant variation among the companies. Harrisons Malayalam Ltd. exhibits the highest reliance on debt relative to assets, posing higher financial risk. Dhunseri Tea Ltd. maintains a conservative approach, while Neelamalai Agro Ltd. balances debt and assets more effectively.
4. Overall, Harrisons Malayalam Ltd. faces higher financial risks due to heavy reliance on debt, whereas Neelamalai Agro Ltd. demonstrates better solvency and financial stability. Dhunseri Tea Ltd. maintains moderate performance across all solvency measures, reflecting a balanced approach to financial management.

8. LIMITATIONS OF THE STUDY

1. The study is limited to three tea companies, which may not fully represent the entire Indian tea industry.
2. As the research relies on secondary data, the accuracy of conclusions is contingent on the reliability of the published financial statements.
3. The study focuses only on three solvency ratios (Debt to Equity, Interest Coverage, and Debt to Total Assets), excluding other financial and operational metrics that might influence overall performance.
4. The analysis is restricted to a specific period (2013-14 to 2022-23) and may not account for more recent developments or financial trends.
5. External influences such as macroeconomic conditions, industry-specific policies, and global market dynamics are beyond the scope of this study.

9. CONCLUSION

This study provides an in-depth analysis of the solvency of three selected tea companies in India—Harrisons Malayalam Ltd., Dhunseri Tea Ltd., and Neelamalai Agro Ltd.—over a ten- year period (2013-14 to 2022-23). By examining three key solvency ratios—Debt to Equity Ratio, Interest Coverage Ratio, and Debt to Total Assets Ratio—the research highlights significant differences in the financial strategies and stability of these companies.

Harrisons Malayalam Ltd. demonstrates the highest reliance on debt financing, as reflected in its Debt to Equity and Debt to Total Assets Ratios. This heavy reliance on external borrowings poses a substantial risk to the company's long-term financial stability. Its low Interest Coverage Ratio further indicates challenges in meeting interest obligations, highlighting financial vulnerability.

Neelamalai Agro Ltd., on the other hand, exhibits exceptional financial stability, with a significantly high Interest Coverage Ratio and balanced Debt to Total Assets Ratio. These findings suggest robust debt management practices and a strong capacity to meet financial obligations.

Dhunseri Tea Ltd. maintains a more conservative financial approach, with moderate ratios across all solvency measures. This reflects a balanced financial strategy that minimizes risks while ensuring operational efficiency.

In conclusion, the study underscores the varying financial approaches and solvency levels of the selected tea companies. While Neelamalai Agro Ltd. stands out for its superior financial stability, Harrisons Malayalam Ltd. must address its high debt reliance to mitigate risks. Dhunseri Tea Ltd. demonstrates a prudent approach, balancing debt and financial health effectively.

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